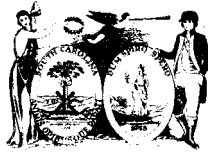


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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March 29, 2002

Mr. Craig G. DeKany, Reimbursement Manager
HCR-Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

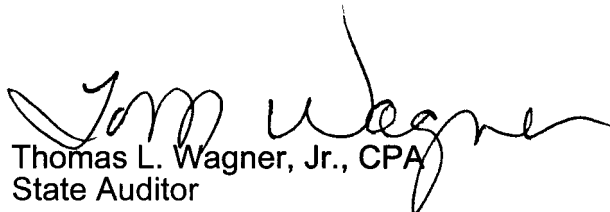
Re: AC# 3-OKU-J8 – Health Care & Retirement Corporation of America
d/b/a Oakmont of Union Nursing and ICF

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**HEALTH CARE & RETIREMENT
CORPORATION OF AMERICA
D/B/A OAKMONT OF UNION NURSING AND ICF**

UNION, SOUTH CAROLINA

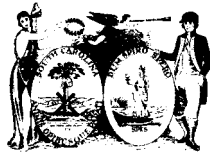
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-OKU-J8**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 26, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF, for the contract period beginning October 1, 1999 and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. The management of Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

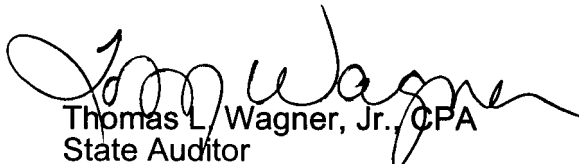
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Health Care & Retirement Corporation of America d/b/a Oakmont of Union Nursing and ICF dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 26, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

OAKMONT OF UNION NURSING AND ICF

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-OKU-J8

10/01/99-
09/30/00

Interim reimbursement rate (1)	\$89.77
Adjusted reimbursement rate	<u>83.50</u>
Decrease in reimbursement rate	\$ <u><u>6.27</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

OAKMONT OF UNION NURSING AND ICF
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 1999 Through September 30, 2000
 AC# 3-OKU-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.30	\$44.29	
Dietary		7.36	10.24	
Laundry/Housekeeping/Maint.		<u>5.69</u>	<u>8.89</u>	
Subtotal	\$ <u>4.44</u>	53.35	63.42	\$53.35
Administration & Med. Rec.	\$ <u>1.87</u>	<u>9.52</u>	<u>11.39</u>	<u>9.52</u>
Subtotal		62.87	<u>\$74.81</u>	62.87
<u>Costs Not Subject to Standards:</u>				
Utilities		2.02		2.02
Special Services		.96		.96
Medical Supplies & Oxygen		3.51		3.51
Taxes and Insurance		1.10		1.10
Legal Fees		<u>.12</u>		<u>.12</u>
TOTAL		<u>\$70.58</u>		70.58
Inflation Factor (3.00%)				2.12
Cost of Capital				6.92
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.87
Cost Incentive				4.44
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.56)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.38</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$83.50</u>

OAKMONT OF UNION NURSING AND ICF
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-OKU-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,342,363	\$ -	\$ 26,891 (2) 170 (2) 3,717 (3) 31,730 (5) 24,311 (5)	\$1,255,544
Dietary	229,691	90,325 (4)	331 (2) 90,231 (5)	229,454
Laundry	66,022	15 (2)	18,640 (5)	47,397
Housekeeping	72,137	44,660 (4)	45 (2) 48,719 (5)	68,033
Maintenance	66,603	38,443 (4)	124 (2) 445 (3) 42,515 (5)	61,962
Administration & Medical Records	342,930	41,982 (4)	3,570 (2) 75 (2) 30,610 (3) 40,856 (5) 13,139 (5)	296,662
Utilities	67,577	38,780 (4)	43,574 (5)	62,783
Special Services	29,950	-	-	29,950
Medical Supplies & Oxygen	108,928	533 (2)	-	109,461
Taxes & Insurance	36,442	19,217 (4)	944 (3) 20,334 (5)	34,381
Legal Fees	4,451	671 (4)	1,446 (3)	3,676

OAKMONT OF UNION NURSING AND ICF
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-OKU-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	237,620	9,541 (4) 6,701 (6)	25,340 (1) 3,331 (3) <u>9,718 (5)</u>	215,473
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	2,604,714	290,868	480,806	2,414,776
Ancillary	92,364	-	-	92,364
Non-Allowable	651,674	25,340 (1) 30,658 (2) 40,493 (3) <u>383,767 (5)</u>	283,619 (4) 6,701 (6) <u> </u>	841,612
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$3,348,752</u>	<u>\$771,126</u>	<u>\$771,126</u>	<u>\$3,348,752</u>
Total Patient Days	<u>31,156</u>	<u>-</u>	<u>-</u>	<u>31,156</u>
TOTAL BEDS	<u>88</u>			

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-OKU-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$371,519	
	Other Equity	332,836	
	Nonallowable	25,340	
	Fixed Assets		\$704,355
	Cost of Capital		25,340
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Laundry	15	
	Medical Supplies	533	
	Nonallowable	30,658	
	Nursing		26,891
	Restorative		170
	Dietary		331
	Housekeeping		45
	Maintenance		124
	Administration		3,570
	Medical Records		75
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable	40,493	
	Nursing		3,717
	Maintenance		445
	Administration		30,610
	Legal		1,446
	Taxes and Insurance		944
	Cost of Capital		3,331
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

OAKMONT OF UNION NURSING AND ICF
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-OKU-J8

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
4	Dietary	90,325	
	Housekeeping	44,660	
	Maintenance	38,443	
	Administration	41,982	
	Legal	671	
	Utilities	38,780	
	Taxes and Insurance	19,217	
	Cost of Capital	9,541	
	Nonallowable		283,619
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
5	Nonallowable	383,767	
	Nursing		31,730
	Restorative		24,311
	Dietary		90,231
	Laundry		18,640
	Housekeeping		48,719
	Maintenance		42,515
	Administration		40,856
	Medical Records		13,139
	Utilities		43,574
	Taxes and Insurance		20,334
	Cost of Capital		9,718
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Cost of Capital	6,701	
	Nonallowable		6,701
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$1,475,481</u>	<u>\$1,475,481</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

OAKMONT OF UNION NURSING AND ICF
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-OKU-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>88</u>
Deemed Asset Value	3,091,440
Improvements Since 1981	436,487
Accumulated Depreciation at 9/30/98	<u>(790,695)</u>
Deemed Depreciated Value	2,737,232
Market Rate of Return	<u>0.063</u>
Total Annual Return	172,446
Return Applicable to Non-Reimbursable Cost Centers	(19,638)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>2,754</u>
Allowable Annual Return	155,562
Depreciation Expense	68,146
Amortization Expense	1,485
Capital Related Income Offsets	(2)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(9,718)</u>
Allowable Cost of Capital Expense	215,473
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>
Cost of Capital Per Diem	<u><u>\$ 6.92</u></u>

OAKMONT OF UNION NURSING AND ICF
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-OKU-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$4.83
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.82</u>
Reimbursable Cost of Capital Per Diem	\$6.92
Cost of Capital Per Diem	<u>6.92</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>

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